GALANTAS GOLD CORPORATION

Consolidated Financial Statements

Years ended December 31, 2006 and 2005

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AUDITORS' REPORT

To the Shareholders of
Galantas Gold Corporation

We have audited the consolidated balance sheets of Galantas Gold Corporation as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Smith Nixon LLP

Licensed Public Accountants
Chartered Accountants
Toronto, Ontario
March 9, 2007

GALANTAS GOLD CORPORATION
(A Development Stage Company)

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31,	2006	2005
Assets		
Current		
Cash	$ **234,909**	$ 1,121,985
Accounts receivable and advances	**397,953**	144,727
Inventory	**100,839**	101,363
Future income taxes (Note 9(b))	**213,366**	302,900
	947,067	1,670,975
Property, plant and equipment (Note 4)	**6,110,357**	2,903,165
Deferred development and exploration costs (Note 5)	**7,542,920**	4,314,368
Future income taxes (Note 9(b))	**958,934**	466,900
	$ **15,559,278**	$ 9,355,408
Liabilities		
Current		
Accounts payable and accrued liabilities	$ **1,499,678**	$ 297,785
Current portion of financing facility (Note 6)	**253,529**	99,207
Due to directors (Note 10)	**-**	253,103
	1,753,207	650,095
Long-term portion of financing facility (Note 6)	**379,773**	271,664
	2,132,980	921,759
Shareholders' Equity		
Share capital (Note 7(a))	**22,458,500**	18,400,862
Warrants (Note 7(b))	**1,913,100**	175,166
Contributed surplus (Note 8)	**848,985**	656,658
	25,220,585	19,232,686
Deficit	**(11,794,287)**	(10,799,037)
	13,426,298	8,433,649
	$ **15,559,278**	$ 9,355,408

Going concern (Note 1)
Subsequent events (Note 15)

SIGNED ON BEHALF OF THE BOARD

(Signed) "L.J. Gunter"	*(Signed) "Roland Phelps"*
Director	Director

See accompanying notes to consolidated financial statements

GALANTAS GOLD CORPORATION
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

YEARS ENDED DECEMBER 31,	2006	2005	Cumulative from January 1, 2003
Sales	**$ 45,928**	$ 47,804	$ 494,478
Cost of goods sold	**17,188**	98,913	530,496
	28,740	(51,109)	(36,018)
Interest income	**10,698**	4,996	15,694
	39,438	(46,113)	(20,324)
Expenses			
Accounting and corporate	**39,055**	28,880	107,131
Bank charges and interest	**14,293**	6,100	32,558
Consulting fees	**6,250**	50,750	57,000
Foreign exchange loss (gain)	**76,248**	(82,495)	(166,428)
Legal and audit	**223,749**	74,728	421,611
Management fees	**-**	164,000	247,500
Operating expenses	**124,989**	146,298	1,304,415
Shareholder communication and public relations	**568,121**	114,028	823,037
Stock-based compensation (Note 7(c))	**192,327**	214,200	714,927
Transfer agent	**25,202**	14,753	65,510
Travel and general office	**59,954**	30,877	215,335
	1,330,188	762,119	3,941,452
Loss before income taxes	**(1,290,750)**	(808,232)	(3,961,776)
Future income tax recovery (Note 9(a))	**295,500**	769,800	1,065,300
Net loss	**(995,250)**	(38,432)	(2,896,476)
Deficit, beginning of period	**(10,799,037)**	(10,760,605)	(8,897,811)
Deficit, end of period	**$ (11,794,287)**	$ (10,799,037)	$ (11,794,287)

Basic and diluted loss per share	**$ (0.01)**	$ 0.00	
Weighted average number of shares outstanding	**145,930,481**	116,992,358	

See accompanying notes to consolidated financial statements

GALANTAS GOLD CORPORATION
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31,	2006	2005	Cumulative from January 1, 2003
CASH PROVIDED BY (USED IN)			
OPERATING ACTIVITIES			
Net loss	**$ (995,250)**	$ (38,432)	$ (2,896,476)
Adjustments for non-cash items:			
Amortization	**4,240**	24,504	167,198
Stock-based compensation	**192,327**	214,200	714,927
Future income tax recovery	**(295,500)**	(769,800)	(1,065,300)
Foreign exchange	**(107,000)**	-	(107,000)
Net change in non-cash working capital (Note 11)	**949,191**	239,345	950,659
	(251,992)	(330,183)	(2,235,992)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	**(3,538,423)**	(1,161,188)	(4,745,655)
Deferred development and exploration costs	**(2,901,561)**	(961,474)	(3,900,454)
Marketable securities	**-**	-	2,096
	(6,439,984)	(2,122,662)	(8,644,013)
FINANCING ACTIVITIES			
Issue of common shares	**6,127,500**	3,503,333	11,264,053
Share issue costs	**(331,928)**	(249,192)	(692,328)
Advances from financing facility	**365,400**	555,000	920,400
Repayments of financing facility	**(102,969)**	(191,459)	(343,240)
Advances from directors	**(253,103)**	(176,608)	(127,140)
	5,804,900	3,441,074	11,021,745
NET CHANGE IN CASH	**(887,076)**	988,229	141,740
CASH, BEGINNING OF PERIOD	**1,121,985**	133,756	93,169
CASH, END OF PERIOD	**$ 234,909**	$ 1,121,985	$ 234,909

Supplemental information (note 11)

See accompanying notes to consolidated financial statements

1. GOING CONCERN

These financial statements have been prepared on a going concern basis which contemplates that Galantas Gold Corporation (the "Company") will be able to realize assets and discharge liabilities in the normal course of business. The recoverability of these consolidated amounts, which includes the consolidated results of the Company's wholly-owned subsidiary Cavanacaw Corporation (Cavanacaw), is dependent on the ability of the Company to obtain future financing and to recover its investment in Omagh Minerals Limited (Omagh). Cavanacaw has a 100% shareholding in Omagh which is engaged in the acquisition, exploration and development of gold properties, mainly in Omagh, Northern Ireland.

As at December 31, 2001, studies performed on Omagh's mineral property confirmed the existence of economically recoverable reserves. The mineral property is currently in the development stage of operation and the directors believe that the capitalized development expenditures will be fully recovered by the future operation of the mine. The recoverability of Omagh's capitalized development costs is thus dependent on the ability to secure financing, future profitable production or proceeds from the disposition of the mineral property.

Management is confident that it will be able to secure the required financing to enable the Company to continue as a going concern. However, this is subject to a number of factors including market conditions. These consolidated financial statements do not reflect adjustments to the carrying value of assets and liabilities, the reported expenses and balance sheet classifications used that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

2. INCORPORATION AND NATURE OF OPERATIONS

The Company was formed on September 20, 1996 under the name Montemor Resources Inc. on the amalgamation of 1169479 Ontario Inc. and Consolidated Deer Creek Resources Limited. The name was changed to European Gold Resources Inc. by articles of amendment dated July 25, 1997. On May 5, 2004, the Company changed its name from European Gold Resources Inc. to Galantas Gold Corporation. The Company was incorporated to explore for and develop mineral resource properties, principally in Europe. In 1997, it purchased all of the shares of Omagh which owns a mineral property in Northern Ireland, including a delineated gold deposit. Omagh obtained full planning and environmental consents necessary to bring its property into production.

The Company entered into an agreement on April 17, 2000, approved by shareholders on June 26, 2000, whereby Cavanacaw, a private Ontario corporation, acquired Omagh. The Company is developing an open pit mine to extract the Company's gold deposit near Omagh, Northern Ireland. The Company also has developed a premium jewelry business founded on the gold produced under the name Galántas Irish Gold Limited (Galántas).

The Company's operations include the consolidated results of Cavanacaw and its wholly-owned subsidiaries Omagh and Galántas.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant estimates and assumptions include the recovery of the deferred development and exploration costs, the valuation of stock-based compensation and other stock-based payments and the ability of the Company to continue as a going concern (note 1). Actual results could differ from those estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany balances have been eliminated.

Foreign Currency Translation

The Company's operations expose it to significant fluctuations in foreign exchange rates. Cavanacaw, Omagh and Galántas are denominated in British pounds and are, therefore, subject to exchange variations against the reporting currency, the Canadian dollar. They are integrated foreign operations, and as such their financial statements have been translated into Canadian dollars using the temporal method. All assets and liabilities are translated at exchange rates effective at the end of each year and all non-monetary assets and liabilities are translated at their historical rates. Income and expenses are translated at the average exchange rate for the year. The foreign currency translation gains and losses are included in the determination of net loss.

Inventory

Inventory of jewelry is stated at the lower of cost and net realizable value, with cost determined on a specific item basis.

Property, Plant and Equipment

The cost of property, plant and equipment is their purchase cost, together with any related costs of acquisition. Amortization is calculated at the following rates:

Buildings	4 % straight line
Plant and machinery	20 % declining balance
Motor vehicles	25 % declining balance
Office equipment	15 % declining balance
Moulds	25 % straight line

Freehold land is not amortized.

Asset Retirement Obligation

The Company is subject to the provisions of CICA Handbook Section 3110, Asset Retirement Obligations, which require the estimated fair value of any asset retirement obligations to be recognized as a liability in the period in which the related environmental disturbance occurs and the present value of the associated future costs can be reasonably estimated. As of December 31, 2006 the Company has capitalized any asset retirement obligations in respect of its mineral exploration property. If the project is successful, the related expenditures will be amortized using units-of-production method over the estimated life of the ore body based on estimated recoverable ounces or pounds mined from proven and probable reserves.

Revenue Recognition

Revenue from sale of gold jewelry is recognized at point of sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-Lived Assets

Long-lived assets, which comprise property, plant and equipment, are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. If the sum of the undiscounted future cash flows expected from use and residual value is less than carrying amount, the long-lived asset is considered impaired. An impairment loss is measured as the amount by which the carrying value of the long-lived asset exceeds its fair value.

Deferred Development and Exploration Costs

Deferred development and exploration costs are capitalized until results of the related projects, based on geographic areas, are known. If a project is successful, the related expenditures will be amortized using the units-of-production method over the estimated life of the ore body based on estimated recoverable ounces or pounds mined from proven and probable reserves. Provision for loss is made where a project is abandoned or considered to be of no further interest to the Company, or where the directors consider such a provision to be prudent.

Income Taxes

The asset and liability method is used for determining income taxes. Under this method, future tax assets and liabilities are recognized for the estimated taxes recoverable or payable that would arise if assets and liabilities were recovered and settled at the financial statement carrying amounts. Future tax assets and liabilities are measured using the substantively enacted tax rates expected to be in effect when the tax assets or liabilities are recovered or settled, respectively. Changes to these rates are recognized in income in the year in which the changes occur. Future income tax assets are recognized to the extent that it is more likely than not that the company will realize the benefit from the asset.

Stock-Based Compensation

The fair value of any stock options granted to directors, officers, employees and consultants is recorded as an expense over the vesting period with a corresponding increase recorded to contributed surplus. The fair value of the stock-based compensation is determined using the Black-Scholes option pricing model and management's assumptions. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Other Stock-based Payments

The Company accounts for other stock-based payments based on the fair value of the equity instruments issued in exchange for the receipt of goods and services from non-employees or the fair value of the goods and services received, whichever is the more reliable basis, by using the stock price and other measurement assumptions as at the measurement date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Per Share Information

Per share information is computed using the weighted average number of common shares outstanding during the year. Diluted per share information is calculated using the treasury stock method for options and warrants. The treasury stock method assumes that any proceeds obtained upon exercise of options and warrants would be used to purchase common shares at the average market price during the year. For the purpose of calculating diluted earnings per share, no adjustment to basic earnings per share is made if the result of these calculations is anti-dilutive.

4. PROPERTY, PLANT AND EQUIPMENT

	2006		
	Cost	Accumulated Amortization	Net
Freehold land and buildings	$ 2,962,629	$ 32,999	$ 2,929,630
Plant and machinery	3,773,982	657,702	3,116,280
Motor vehicles	61,438	31,851	29,587
Office equipment	77,303	42,443	34,860
Moulds	81,802	81,802	-
	$ 6,957,154	$ 846,797	$ 6,110,357

	2005		
	Cost	Accumulated Amortization	Net
Freehold land and buildings	$ 1,772,673	$ 28,706	$ 1,743,967
Plant and machinery	1,458,487	342,731	1,115,756
Motor vehicles	34,511	27,297	7,214
Office equipment	70,783	34,555	36,228
Moulds	81,802	81,802	-
	$ 3,418,256	$ 515,091	$ 2,903,105

Freehold land and buildings includes an asset retirement obligation of $101,900.

The Company holds a Crown Mining Lease which grants the Company the right to extract gold and silver from its property at Omagh, County Tyrone, Northern Ireland. This Lease is for 10 years from June 2005. The Lease requires the Company to pay $46,000 (GBP 20,000) per year for the first three years with additional rent payable calculated on gold output after the first three years. The Company also has two-year prospecting licenses expiring in July 2007 in respect to gold, silver and other metals. The Lease and licenses contain certain rights as to renewal providing that certain rent and royalty payments, exploration expenditure and other terms have been met, including the provision of a restoration bond.

During the year the Company purchased an adjoining property at a cost of $781,182 (GBP 377,073). The purchase includes only surface rights as rights to gold and silver are already held by the Company through its Crown Mining Lease.

5. DEFERRED DEVELOPMENT AND EXPLORATION COSTS

	2006	2005
Opening balance	$ 4,314,368	$ 3,218,811
Additions during the period:		
Minerals and metallurgical	-	297,238
Consultants	235,254	60,935
Leases	168,280	19,522
Fuel	204,698	14,852
Wages	888,833	119,800
Interest	43,555	17,449
Traveling	161,097	88,369
Repairs and maintenance	222,770	47,594
Construction	686,176	284,402
General	86,646	11,313
Amortization	326,991	134,083
Drilling	180,665	-
Laboratory	23,587	-
	3,228,552	1,095,557
Total deferred development and exploration costs	$ 7,542,920	$ 4,314,368

6. FINANCING FACILITY

(i) On May 27, 2005, the Company obtained financing from Barclays Mercantile Business Finance Ltd. in the amount of $555,000 (238,700 GBP) for the purchase of mining equipment. The loan is for a period of four years at 3.71% with monthly principal and interest payments of $10,172 (5,071 GBP).

(ii) On March 17, 2006, the Company obtained financing from Barclays Mercantile Business Finance Ltd. in the amount of $365,400 (180,000 GBP) to assist in the purchase of certain metallurgical equipment having a cost of $728,770 (359,000 GBP). The loan is for a period of three years at 3.97% with monthly principal and interest payments of $11,658 (5,578 GBP).

Borrowings are secured by a legal mortgage charge over the land and a letter of guarantee.

Amounts payable on the long term debt are as follows:

	2006	2005
Financing facility (i)	$ 319,201	$ 370,871
Financing facility (ii)	314,101	-
	633,302	370,871
Less: Current portion	253,529	99,207
	$ 379,773	$ 271,664

6. FINANCING FACILITY (continued)

Principal repayments over the next three years are as follows:

2007	$	253,529
2008		273,771
2009		106,002
	$	633,302

7. SHARE CAPITAL

(a) Authorized and issued

Authorized
Unlimited number of common and preference shares issuable in Series

Issued common shares

	Number of Shares		Stated Value
Balance, January 1, 2003	71,115,222	$	13,082,493
Exercise of warrants	250,000		27,461
Common shares issued, net of issue costs	8,707,860		1,048,524
Common shares issued for debt settlement	7,416,395		741,640
Warrants issued	-		(78,537)
Balance, December 31, 2003	87,489,477		14,821,581
Issued under private placement	2,866,825		430,024
Warrants issued	-		(71,671)
Warrants exercised	945,554		176,659
Share issue costs	-		(34,706)
Balance, December 31, 2004	91,301,856		15,321,887
Issued under private placements (i) and (ii)	35,033,333		3,503,333
Warrants issued (i) and (ii)	-		(175,166)
Share issue costs	-		(249,192)
Balance, December 31, 2005	126,335,189		18,400,862
Issued under private placement (iii)	14,000,000		3,500,000
Warrants issued (iii)	-		(1,735,000)
Agent's compensation options granted (iii)	-		(178,100)
Warrants exercised	17,516,666		2,802,666
Share issue costs	-		(331,928)
Balance, December 31, 2006	157,851,855	$	22,458,500

7. SHARE CAPITAL (Continued)

(a) Authorized and issued (Continued)

(i) On April 4, 2005, the Company closed the first tranche of a private placement, issuing 23,333,333 units at a price of $0.10 per unit for gross proceeds of $2,333,333. Each unit consisted of one common share in the capital of the Company and one half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share at an exercise price of $0.15 until April 4, 2006. Finder's fees in the amount of $74,320 of the brokered portion of the placement were paid to several parties in connection with this placement.

(ii) On April 14, 2005, the Company closed the second tranche of a private placement, issuing 11,700,000 units at a price of $0.10 per unit for gross proceeds of $1,170,000. Each unit consisted of one common share in the capital of the Company and one half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share at an exercise price of $0.15 until April 14, 2006. Finder's fees in the amount of $57,365 of the brokered portion of the placement were paid to several parties in connection with this placement.

The fair value of the 17,516,666 warrants in (i) and (ii) above were estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield - 0%; volatility - 68%; risk-free interest rate - 2.0% and an expected life of 1 year. The fair value attributed to the warrants was $175,166.

(iii) On July 26, 2006, the Company closed a private placement (the "Offering") for gross proceeds of $3,500,000. Pursuant to this offering, the Company issued 14,000,000 units of the Company (each a "Unit") at the price of $0.25 per Unit (including an over-allotment of 1,200,000 Units (the "Over-Allotment") and 2,000,000 Units for subscribers specifically identified by management (the "President's List"). Each Unit consists of one common share of the Company and one warrant of the Company. Each warrant entitles the purchaser to purchase one common share at a price of $0.32 per share at any time until July 26, 2008.

Union Securities Ltd., acting as agent (the "Agent") was paid a cash fee of $240,000 representing 8% in cash commission based on Units sold under the Offering and the Over-Allotment Option (excluding Units sold pursuant to the President's List) and $20,000 representing 4% in cash for Units sold pursuant to the President's List. In addition, the Company issued to the Agent 1,300,000 compensation options (the "Agent's Compensation Options") equal to 10% of all Units sold pursuant to the Offering and the Over-Allotment Option (excluding Units sold pursuant to the President's List) and 5% of all Units sold pursuant to the President's List. Each Agent's Compensation Option entitles the Agent to purchase one unit of the Company at $0.25 per Unit at any time prior to July 26, 2008. Each Unit consists of one common share of the Company and one warrant of the Company.

Other costs associated directly with the private placement amounted to $71,928.

The fair value of the 14,000,000 warrants and 1,300,000 compensation options (collectively "the warrants") were estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield - 0%; volatility - 110%; risk-free interest rate - 4.15% and an expected life of 2 years. The fair value attributed to the warrants was $1,735,000 and $178,100 respectively.

7. SHARE CAPITAL (Continued)

(b) Warrants

The following table shows the continuity of warrants for the years ended December 31, 2006 and 2005.

	Number of Warrants	Weighted Average Exercise Price
Balance, January 1, 2003	-	$ -
Issued under private placements	8,151,664	0.18
Exercised	(250,000)	0.16
Balance, December 31, 2003	7,901,664	0.18
Issued under private placement	1,433,412	0.05
Exercised	(945,554)	0.17
Expired	(6,956,110)	0.18
Balance, December 31, 2004	1,433,412	0.05
Issued (Note 7(a)(i)(ii))	17,516,666	0.15
Expired	(1,433,412)	0.05
Balance, December 31, 2005	17,516,666	0.15
Exercised	(17,516,666)	0.15
Issued (Note 7(a)(iii))	15,300,000	0.32
Balance, December 31, 2006	15,300,000	$ 0.32

As at December 31, 2006, the following warrants were outstanding:

Number of Warrants	Fair Value	Exercise Price ($)	Expiry Date
14,000,000	$ 1,735,000	0.32	July 26, 2008
1,300,000	178,100	0.25	July 26, 2008
15,300,000	$ 1,913,100		

(c) Stock options

The Company has a stock option plan ("the Plan"), the purpose of which is to attract, retain and compensate qualified persons as directors, senior officers and employees of, and consultants to the Company and its affiliates and subsidiaries by providing such persons with the opportunity, through share options, to acquire an increased proprietary interest in the Company. The number of shares reserved for issuance under the Plan cannot be more than a maximum of 10% of the issued and outstanding shares at the time of any grant of options. The period for exercising an option shall not extend beyond a period of five years following the date the option is granted.

7. SHARE CAPITAL (continued)

(c) Stock options (continued)

Insiders of the Company are restricted on an individual basis from holding options which when exercised would entitle them to receive more than 5% of the total issued and outstanding shares at the time the option is granted. The exercise price of options granted in accordance with the Plan shall be the closing price of the shares on the TSX Venture Exchange immediately preceding the date on which the option is granted, subject to permissible discounting in accordance with the Corporate Finance Policies of the Exchange.

The following table shows the continuity of options for the years ended December 31, 2006 and 2005.

	Number of Options	Weighted Average Price
Balance, January 1, 2003	2,380,000	$ 0.12
Granted	4,200,000	0.15
Cancelled/Expired	(580,000)	0.12
Balance, December 31, 2003	6,000,000	0.14
Granted	2,000,000	0.22
Balance, December 31, 2004	8,000,000	0.16
Granted (i)	300,000	0.10
Cancelled/Expired	(400,000)	0.12
Balance, December 31, 2005	7,900,000	0.11
Granted (ii)	1,000,000	0.26
Cancelled/Expired	(1,400,000)	0.15
Balance, December 31, 2006	7,500,000	$ 0.14

Stock-based compensation expense includes $118,542 (2005 - $98,200) relating to stock options granted in previous years that vested during the year.

(i) On May 13, 2005, the Company granted 300,000 stock options to consultants of the Company to purchase common shares at a price of $0.10 per common share until May 13, 2010. The options vest one-third upon grant, one-third on the first anniversary of grant and one-third on the second anniversary of grant. The fair value attributed to these options was $12,000 and will be expensed in the statement of operations and deficit and recorded as contributed surplus as the options vest. Included in the stock-based compensation for 2006 is $6,542 (2005 - $4,000) related to the vested portion of these stock options. 100,000 of these stock options were cancelled in 2005 due to forfeiture.

(ii) On June 14, 2006, 1,000,000 stock options were granted to employees of the Company to purchase common shares at a price of $0.26 per share until June 14, 2011. The options vest one-third upon grant, one-third on the first anniversary of grant and one-third on the second anniversary of grant. The fair value attributed to these options was $143,000 and will be expensed in the statement of operations and deficit and credited to contributed surplus as the options vest. Included in the stock-based compensation for 2006 is $73,785 related to the vested portion of these stock options.

7. SHARE CAPITAL (continued)

(c) Stock options (continued)

All granted stock options were valued on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2006	2005
Risk-free interest rate	4.26%	2.9%
Expected life of options	5 years	5 years
Annualized volatility	110%	68%
Dividend rate	0 %	0 %

As at December 31, 2006, the following stock options were outstanding:

Exercisable Options	Number of Options	Exercise Price ($)	Expiry Date
1,500,000	1,500,000	0.12	May 17, 2007
2,800,000	2,800,000	0.15	April 10, 2008
2,000,000	2,000,000	0.10	April 1, 2009
133,334	200,000	0.10	May 13, 2010
333,334	1,000,000	0.26	June 14, 2011
6,766,668	7,500,000		

On April 1, 2005, the Company received Exchange approval to re-price 2,000,000 stock options granted in 2004 from $0.22 to $0.10. The Company also changed the expiry date of 1,000,000 stock options from April 10, 2008 to February 13, 2006 to correspond with the expiry date of a contract with a consultant of the Company. These 1,000,000 stock options were not exercised and expired on February 13, 2006.

8. CONTRIBUTED SURPLUS

The following table reflects the continuity of contributed surplus:

Balance, January 1, 2003	$ 1,420
Stock options granted	20,751
Balance, December 31, 2003	22,171
Stock options granted	287,649
Warrants exercised/expired	60,967
Balance, December 31, 2004	370,787
Stock options granted	214,200
Warrants expired	71,671
Balance, December 31, 2005	656,658
Stock options granted	192,327
Balance, December 31, 2006	$ 848,985

9. INCOME TAXES

(a) Provision for income taxes

Income taxes differ from the amount that would be computed by applying the Company's Canadian statutory rate of 36.12% (2005 - 36.12%) to loss before provision for, or recovery of, income taxes. The reasons for the differences are as follows:

	2006	2005
Loss before income taxes	$(1,290,695)	$ (808,232)
Expected tax recovery at statutory rate	$ (466,200)	$ (291,900)
Increase (decrease) resulting from:		
Stock-based compensation	69,500	77,400
Share issue costs	(54,100)	(32,600)
Foreign exchange	26,400	(29,800)
Tax amortization in excess of accounting	(877,600)	(229,500)
Change in future tax assets not previously recognized	-	(539,400)
Foreign tax rate differences	607,800	68,200
Non-capital losses not recognized	398,700	207,800
	$ (295,500)	$ (769,800)

(b) Future tax balances

The tax effects of temporary differences that give rise to future income tax assets and future income tax liabilities are as follows:

	2006	2005
Future income tax assets (liabilities)		
Non-capital losses	$4,124,600	$ 2,726,300
Share issue costs	54,100	34,200
Property, plant and equipment and deferred development costs	(1,663,800)	(1,049,600)
Valuation allowance	(1,342,600)	(941,100)
	1,172,300	769,800
Current portion	213,366	302,900
	$ 958,934	$ 466,900

9. INCOME TAXES (Continued)

(c) Losses carried forward

As at December 31, 2006, the Company had non-capital losses carried forward of $13,170,813 (2005 - $8,475,747) for income tax purposes as follows:

Expires	2007	$ 32,488
	2008	240,733
	2009	94,158
	2011	249,460
	2014	426,803
	2015	568,540
	2026	1,073,616
Indefinite		10,515,015
		$ 13,170,813

A future tax asset for non-capital losses of $3,907,727 has been recognized as at December 31, 2006, as it has been determined that it is more likely than not that the benefit will be realized in the future.

10. RELATED PARTY TRANSACTIONS

As at December 31, 2006, the Company was indebted to directors in the amount of $nil (2005 - $253,103). This amount represents amounts paid by the directors on behalf of the Company along with unpaid management fees. These amounts are interest-free and there are no fixed terms of repayment.

During the year, the Company was charged $nil (2005 - $164,000) by directors of the Company for management services which are in the normal course of operations and are measured at the exchange amount established and agreed to by the related parties. Accounts payable includes $nil (2005 - $139,000) owing to these directors for management services and repayment of expenses incurred on behalf of the Company.

The Company was charged $45,296 (2005 - $35,183) for accounting and corporate secretarial services by companies associated to an officer of the Company in the normal course of business at the exchange amount. Accounts payable includes $5,568 (2005 - $4,505) owing to these companies.

Pursuant to employment agreements dated March 15th, 2006 (which were retroactive to January 1, 2005) entered into with Mr. Jack Gunter, Chairman of the Company and Mr. Roland Phelps, Chief Executive Officer they provided for them to be each paid annually 40,000 GBP. Pursuant to an employment agreement dated March 29th, 2004 Mr. Moe Lavigne, Vice President Exploration and Development is to be paid annually 40,000 GBP. Therefore the Company paid to management in salary $250,800 (2005–$264,800). These amounts were capitalized to the deferred development and exploration costs.

The independent directors only are compensated as to an annual fee of $5,000, the chair of any Committee is compensated $500 per meeting and each director or member of a committee is compensated $250 per meeting. This was effective January 1, 2005. In 2006 a total of $25,250 (2005-$28,500) was paid to the independent directors under these arrangements, namely to Mr. Golla $6,250 (2005-$7,000), to Mr. Brewster $6,000 (2005-$6,500), to Mr Clancy $7,000 (2005-$7,750) and to Mr. Alexander $6,000 (2005-$7,250).

11. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Net change in non-cash working capital

	2006	2005
Accounts receivable and advances	$ (253,226)	$ (40,056)
Inventory	524	116,191
Accounts payable and accrued liabilities	1,201,893	163,210
	$ 949,191	$ 239,345

(b) Supplemental information

	2006	2005
Interest paid	$ 57,848	$ 23,549

Interest paid includes $43,555 (2005 - $17,449) of interest paid on the financing facility and charged to deferred development costs.

12. FINANCIAL INSTRUMENTS

Fair Value

The carrying value of cash, accounts receivable and advances, accounts payable and accrued liabilities are considered to be representative of their respective values due to their short-term nature.

The fair value of the financing facility approximates carrying value since actual rates approximate market rates.

Foreign Exchange Risk

Certain of the Company's expenses and revenues are incurred in the currencies of Northern Ireland and the United Kingdom and are therefore subject to gains or losses due to fluctuations in these currencies against the Canadian Dollar.

Commodity Price Risk

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

13. SEGMENT DISCLOSURE

The Company, after reviewing its reporting systems, has determined that it has one reportable segment. The Company's operations are substantially all related to its investment in Cavanacaw Corporation and its subsidiaries, Omagh and Galantas. Substantially all of the Company's revenues, costs and assets of the business that support these operations are derived, incurred or located in Northern Ireland.

14. OTHER INFORMATION

Effective March 31, 2006 the Company's shares were admitted to trading on the Alternative Investment Market ("AIM") of the London Stock Exchange. As a result, the Company is dual-listed on both AIM and the TSX Venture Exchange in Canada under the symbol "GAL".

15. SUBSEQUENT EVENTS

On February 12, 2007, 4,400,000 stock options with an exercise price from $0.10 to $0.15 per share were exercised for total proceeds of $540,000.

On March 2, 2007 the Company announced a placement of 5,284,000 units for gross proceeds of $1,717,300. Each unit is priced at $0.325 and is comprised of one common share and one warrant. Each warrant entitles the holder to purchase one common share within 18 months from closing at a price of $0.45. An arrangement fee of 5% is payable to the broker.

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation. Net loss previously reported has not been affected by this reclassification.